

**DELAWARE MILITARY ACADEMY
CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware**

FINANCIAL STATEMENTS

JUNE 30, 2005

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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Dover, Delaware
800.355.8210

Media, Pennsylvania
610.565.5222

INDEPENDENT AUDITORS' REPORT

202 Bancroft Building
3411 Silverside Road
Wilmington, Delaware 19810
302.478.8940

FAX: 302.478.0133
www.btcpa.com
info@btcpa.com

August 5, 2005

Board of Directors
Delaware Military Academy Charter School
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities and each major fund of Delaware Military Academy Charter School (the "School"), Wilmington, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information in the fund financial statements has been derived from the School's financial statements as of and for the year ended June 30, 2004 and, in our report dated August 20, 2004, we expressed an unqualified opinion on those fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Delaware Military Academy Charter School as of June 30, 2005, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2005, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 2 through 7 and page 24, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delaware Military Academy Charter School's basic financial statements. The schedules on pages 25 - 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


BARBACANE, THORNTON & COMPANY

BARBACANE
THORNTON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**MANAGEMENT'S DISCUSSION
AND ANALYSIS SECTION**

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Delaware Military Academy Charter School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2005, which is the School's second full year of operation. Please read it in conjunction with the Independent Auditors' Report and the Academy's financial statements.

FINANCIAL HIGHLIGHTS

The School's net assets decreased by \$294,550, and general revenues accounted for \$3.2 million or 80 percent of total revenues.

The School reported net assets of \$(112,161).

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental Funds

All of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. Activities related to capital assets, long-term debt and compensated absences are the primary reconciling items.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets by \$112,161 at the close of the fiscal year.

**Table 1
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004*</u>
ASSETS		
Current and Other Assets:		
Cash and Investments	\$ 226,276	\$ 691,921
Receivables – Due From other governments	6,957	18,540
Prepaid rent	51,282	-
Accounts receivable	<u>35,280</u>	<u>-</u>
Total Current Assets	319,795	710,461
Noncurrent Assets:		
Capital assets, net of depreciation	<u>3,031,826</u>	<u>2,417,013</u>
TOTAL ASSETS	<u>\$3,351,621</u>	<u>\$3,127,474</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ -	\$ 399,213
Due to State of Delaware - pension costs and uniform deposit	147,817	103,906
Accrued salaries	302,473	208,443
Note Payable	<u>60,515</u>	<u>-</u>
Total Current Liabilities	<u>510,805</u>	<u>711,562</u>

* Restated for comparative purposes.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table 1 (continued)
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004*</u>
Noncurrent Liabilities:		
Compensated Absences	24,310	17,333
Note Payable	<u>2,928,667</u>	<u>2,216,190</u>
Total Noncurrent Liabilities	<u>2,952,977</u>	<u>2,233,523</u>
TOTAL LIABILITIES	<u>3,463,782</u>	<u>2,945,085</u>
Net Assets:		
Invested in capital assets, net of depreciation	42,644	200,823
Unrestricted	<u>(154,805)</u>	<u>(18,434)</u>
TOTAL NET ASSETS	<u>\$ (112,161)</u>	<u>\$ 182,389</u>

* Restated for comparative purposes.

This year was the second full year of operations for the School. During the fiscal year, the School completed the fit-out costs for the second school building which was financed through a loan, which caused the increase in capital assets and notes payable.

The School is reporting negative balances in net assets, both for the government as a whole and for its separate governmental funds.

**Table 2
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004*</u>
REVENUES		
General revenue:		
Charges to school districts	\$1,015,583	\$ 682,782
Payments from primary government	2,179,205	1,558,989
Earnings on cash and investments	10,202	5,146
Program Revenue:		
Operating grants and contributions	<u>668,826</u>	<u>592,282</u>
Total Revenues	<u>3,873,816</u>	<u>2,839,199</u>
EXPENSES		
Instructional services	2,531,281	1,954,473
Supporting services:		
Operation and maintenance of facilities	1,187,172	402,990
Transportation	259,309	209,226
Interest on debt	<u>190,604</u>	<u>48,386</u>
Total Expenses	<u>4,168,366</u>	<u>2,615,075</u>
CHANGE IN NET ASSETS	<u>\$ (294,550)</u>	<u>\$ 224,124</u>

* Restated for comparative purposes.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The increase in enrollment (414 students in fiscal year 2005 compared to 306 students in fiscal year 2004) for the School in the second full year of operations led to increased funding and expenses. This was also the first full year of occupancy in the new building, which accounts for the significant increase in operation and maintenance of facilities.

Governmental Activities

Net assets of the School's governmental activities decreased by \$(294,550), with unrestricted net assets decreasing by \$(136,371).

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, investment earnings and state entitlements must support the net cost of the School's programs.

	<u>2005 Services</u>		<u>2004 Services*</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
Governmental Activities:				
Instructional services	\$ 2,531,281	\$ 1,862,455	\$ 1,954,473	\$ 1,362,191
Supporting services:				
Operation and maintenance of				
Facilities	1,187,172	1,187,172	402,990	402,990
Transportation	259,309	259,309	209,226	209,226
Interest on long-term debt	<u>190,604</u>	<u>190,604</u>	<u>48,386</u>	<u>48,386</u>
Total Expenses	<u>\$ 4,168,366</u>	<u>\$ 3,499,540</u>	<u>\$ 2,615,075</u>	<u>\$ 2,022,793</u>

* Restated for comparative purposes.

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$3,499,540 of support.

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet) as of June 30, 2005 reported a combined fund deficit of \$(130,495) compared to last year's total deficit of \$(1,101).

Governmental Funds

The School's fund balance decrease is due to many factors, the most significant of which is the first full year of operation in the new building. The tables that follow assist in illustrating the financial activities and balance of governmental funds.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>Total Governmental Funds</u>	
	<u>2005</u>	<u>2004*</u>
REVENUES		
Charges to school districts	\$ 1,015,583	\$ 682,782
State aid	2,236,086	1,558,989
Federal aid	139,205	103,014
Earnings on cash and investments	10,202	5,146
Contributions	<u>472,740</u>	<u>489,268</u>
TOTAL REVENUES	<u>\$ 3,873,816</u>	<u>\$ 2,839,199</u>
EXPENDITURES		
Current:		
Administrative services	\$ 2,550,999	\$ 2,040,346
Operation and maintenance of facilities	903,333	398,498
Transportation	259,309	-
Debt service:		
Interest	190,604	48,387
Principal	-	850,000
Loan issue costs	-	35,001
Capital outlays:		
Equipment	98,965	139,972
Property	<u>772,992</u>	<u>1,452,403</u>
TOTAL EXPENDITURES	<u>4,776,202</u>	<u>4,964,607</u>
Other Financing Sources (Uses):		
Proceeds from financing sources	<u>772,992</u>	<u>2,216,190</u>
Total Other Financing Sources	<u>772,992</u>	<u>2,216,190</u>
NET CHANGE IN FUND BALANCES	(129,394)	90,782
FUND BALANCES, BEGINNING OF YEAR	<u>(1,101)</u>	<u>(91,883)</u>
FUND BALANCES, END OF YEAR	<u>\$ (130,495)</u>	<u>\$ (1,101)</u>

* Restated for comparative purposes.

The increase in revenues for the year was due to the addition of students during the current fiscal year which led to the increase in revenue received from the primary government. Student enrollment increased by 108 students from 306 students in fiscal year 2004 to 414 students in fiscal year 2005.

The decrease in expenditures at the fund level is primarily attributed to loan issue costs paid in the prior year offsetting the increase in other expenditures attributed to the addition of students to the School. The decrease in capital outlays for the School is due to the completion of the construction on the second school building in order to facilitate the increase in the number of students in the prior years.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Expenditures exceeded revenues and financing proceeds during the fiscal year resulting in a \$(129,394) decrease in fund balances. The fund balances are still being diligently monitored during the start-up period.

GENERAL FUND BUDGET INFORMATION

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

As this was the second full year of operations for the School, it will experience some difficulty in estimating certain budgetary line items. The variance in total expenditures can be attributed solely to the construction-related debt and expenditures. As the School continues into its third year of operations, it will continue to use historical trends based upon prior year experience and anticipated future growth.

CAPITAL ASSETS

The School has \$3,031,826 invested in capital assets, net of depreciation, all of which are attributed to governmental activities. Acquisitions for governmental activities totaled \$851,461 and depreciation was \$236,648. The majority of the acquisitions were for construction of the School's two new facilities at 1000 Middleboro Road, Wilmington, Delaware. Building #1 (Talley Hall) was placed into service for the 2003-2004 school year and Building #2 in the current 2004-2005 school year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2005 was the second year of operation as a functioning school. The School will have growth in enrollment for the next fiscal year, reaching ultimate planned capacity. Planned capacity for the School is 535 students. Larger enrollment will result in an increase in state and local district revenues, and an increase in operating expenses.

At the end of the prior year, the School was in the process of completing building #2 as its classroom/science/assembly/NROTC storage facility. The building was put into service in August of 2004. The School's contribution to the cost of this project and the debt service of the mortgage had a significant impact on operations.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, parents, investors, potential investors and creditors with a general overview of the School's finances. If you have questions about this report or need additional financial information, contact the School's Director of Operations at (302) 998-0745.

BASIC FINANCIAL STATEMENTS SECTION

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004*</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 226,276	\$ 691,921
Accounts receivable	35,280	-
Prepaid rent	51,282	-
Receivable - due from other government	<u>6,957</u>	<u>18,540</u>
Total Current Assets	319,795	710,461
Noncurrent Assets:		
Capital assets, net of depreciation	<u>3,031,826</u>	<u>2,417,013</u>
TOTAL ASSETS	<u><u>\$ 3,351,621</u></u>	<u><u>\$ 3,127,474</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ -	\$ 399,213
Accrued salaries	302,473	208,443
Due to State of Delaware - pension costs	41,631	25,308
Uniform deposit escrow	106,186	78,598
Notes payable	<u>60,515</u>	<u>-</u>
Total Current Liabilities	<u>510,805</u>	<u>711,562</u>
Noncurrent Liabilities:		
Compensated absences	24,310	17,333
Notes payable	<u>2,928,667</u>	<u>2,216,190</u>
Total Noncurrent Liabilities	<u>2,952,977</u>	<u>2,233,523</u>
TOTAL LIABILITIES	<u><u>3,463,782</u></u>	<u><u>2,945,085</u></u>
NET ASSETS		
Invested in capital assets, net of related debt	42,644	200,823
Unrestricted	<u>(154,805)</u>	<u>(18,434)</u>
Total Net Assets	<u>(112,161)</u>	<u>182,389</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,351,621</u></u>	<u><u>\$ 3,127,474</u></u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (2,531,281)	\$ -	\$ 668,826	\$ -	\$ (1,862,455)
Supporting services:					
Operation and maintenance of facilities	(1,187,172)	-	-	-	(1,187,172)
Transportation	(259,309)	-	-	-	(259,309)
Interest on long-term debt	(190,604)	-	-	-	(190,604)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (4,168,366)</u>	<u>\$ -</u>	<u>\$ 668,826</u>	<u>\$ -</u>	<u>(3,499,540)</u>
GENERAL REVENUES					
Charges to school districts					1,015,583
Payments from primary government					2,179,205
Earnings on cash and investments					<u>10,202</u>
TOTAL GENERAL REVENUES					<u>3,204,990</u>
CHANGE IN NET ASSETS					(294,550)
NET ASSETS, BEGINNING OF YEAR					<u>182,389</u>
NET ASSETS, END OF YEAR					<u>\$ (112,161)</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Expenses	Charges for Services	Program Revenues	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total*
GOVERNMENTAL ACTIVITIES					
Instructional services	\$(1,954,473)	\$ -	\$ 592,282	\$ -	\$(1,362,191)
Supporting services:					
Operation and maintenance of facilities	(402,990)	-	-	-	(402,990)
Transportation	(209,226)	-	-	-	(209,226)
Interest on long-term debt	(48,386)	-	-	-	(48,386)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(2,615,075)</u>	<u>\$ -</u>	<u>\$ 592,282</u>	<u>\$ -</u>	<u>(2,022,793)</u>
GENERAL REVENUES					
Charges to school districts					682,782
Payments from primary government					1,558,989
Earnings on cash and investments					<u>5,146</u>
TOTAL GENERAL REVENUES					<u>2,246,917</u>
CHANGE IN NET ASSETS					224,124
NET ASSETS, BEGINNING OF YEAR					<u>(41,735)</u>
NET ASSETS, END OF YEAR					<u>\$ 182,389</u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	Totals	
	<u>2005</u>	<u>2004*</u>
ASSETS		
Cash and cash equivalents	\$ 226,276	\$ 691,921
Accounts receivable	35,280	-
Prepaid rent	51,282	
Receivable - other governments	<u>6,957</u>	<u>18,540</u>
TOTAL ASSETS	<u>\$ 319,795</u>	<u>\$ 710,461</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable	\$ -	\$ 399,213
Accrued salaries	302,473	208,443
Due to State of Delaware - pension costs	41,631	25,308
Uniform deposits	<u>106,186</u>	<u>78,598</u>
Total Liabilities	<u>450,290</u>	<u>711,562</u>
FUND BALANCES:		
Reserved for encumbrances	6,075	399
Unreserved:		
General Fund	<u>(136,570)</u>	<u>(1,500)</u>
Total Fund Balances	<u>(130,495)</u>	<u>(1,101)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 319,795</u>	<u>\$ 710,461</u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ (130,495)
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.

3,031,826

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:

Compensated absences	\$ (24,310)	
Notes payable	<u>(2,989,182)</u>	<u>(3,013,492)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ (112,161)</u>
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The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Totals	
	<u>2005</u>	<u>2004*</u>
REVENUES		
Charges to school districts	\$1,015,583	\$ 682,782
State aid	2,236,086	1,558,989
Federal aid	139,205	103,014
Earnings on cash and investments	10,202	5,146
Contributions	472,740	489,268
TOTAL REVENUES	<u>3,873,816</u>	<u>2,839,199</u>
EXPENDITURES		
Current:		
Instructional services	2,550,999	1,831,120
Operation and maintenance of facilities	903,333	398,498
Transportation	259,309	209,226
Capital Outlays:		
Equipment	98,965	139,972
Property	772,992	1,452,403
Debt Service:		
Principal	-	850,000
Loan issue costs	-	35,001
Interest	190,604	48,387
TOTAL EXPENDITURES	<u>4,776,202</u>	<u>4,964,607</u>
(DEFICIENCY) OF REVENUES UNDER EXPENDITURES	<u>(902,386)</u>	<u>(2,125,408)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from financing	772,992	2,216,190
TOTAL OTHER FINANCING SOURCES	<u>772,992</u>	<u>2,216,190</u>
NET CHANGE IN FUND BALANCES	(129,394)	90,782
FUND BALANCES, BEGINNING OF YEAR	<u>(1,101)</u>	<u>(91,883)</u>
FUND BALANCES, END OF YEAR	<u>\$ (130,495)</u>	<u>\$ (1,101)</u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (129,394)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 851,461	
Depreciation expense	<u>(236,648)</u>	<u>614,813</u>

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Issuance of note payable	<u>(772,992)</u>
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(6,977)</u>
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ (294,550)

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Delaware Military Academy Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

Delaware Military Academy Charter School was established in November 2002 but did not begin a regular school year until September 2003. This was the second full year of operations, which was primarily funded with state and local funding based upon student enrollment.

The financial statements of Delaware Military Academy Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Delaware Military Academy Charter School (the "School") are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to the school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Amounts reported or to be reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand and demand deposits.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and fixtures	10 years
Leasehold improvements	15 years
Equipment	7 years

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave - Sick leave allowances are as follows: teachers shall be allowed eight days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 120 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 120 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 120 days.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2004 basic financial statements to be comparative with the current year presentation.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2005, the School has a cash and investment balance of \$226,276. Cash and investments are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the state.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction-in-progress	<u>\$1,449,133</u>	<u>\$ -</u>	<u>\$(1,449,133)</u>	<u>\$ -</u>
Capital assets being depreciated:				
Leasehold improvements	911,796	2,222,125	-	3,133,921
Equipment	75,242	25,962	-	101,204
Furniture and fixtures	<u>60,061</u>	<u>52,507</u>	-	<u>112,568</u>
Total Capital Assets Being Depreciated	<u>1,047,099</u>	<u>2,300,594</u>	-	<u>3,347,693</u>
Accumulated depreciation:				
Leasehold improvements	(65,257)	(208,933)	-	(274,190)
Equipment and furniture	<u>(13,962)</u>	<u>(27,715)</u>	-	<u>(41,677)</u>
Total accumulated depreciation	<u>(79,219)</u>	<u>(236,648)</u>	-	<u>(315,867)</u>
Total Capital Assets Being Depreciated, Net	<u>967,880</u>	<u>2,063,946</u>	-	<u>3,031,826</u>
Governmental Activities Capital Assets, Net	<u>\$2,417,013</u>	<u>\$2,063,946</u>	<u>\$(1,449,133)</u>	<u>\$3,031,826</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 27,715
Operation and maintenance of facilities	<u>208,933</u>
	<u>\$236,648</u>

NOTE 4 LEASING ARRANGEMENTS

The School leases its facility from Trison Builders under operating lease arrangements expiring in August of 2018. Total rent expense for the fiscal year ended June 30, 2005 was \$615,384. The lease for the second school building began on August 1, 2004.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LEASING ARRANGEMENTS (cont'd)

Future minimum lease payments under operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Facility #1</u>	<u>Facility #2</u>	<u>Total</u>
2006	\$ 302,052	\$ 313,344	\$ 615,396
2007	302,052	313,344	615,396
2008	302,052	313,344	615,396
2009	302,052	313,344	615,396
2010	302,052	313,344	615,396
2010-2014	1,510,260	1,566,720	3,076,980
2015-2019	<u>956,498</u>	<u>992,256</u>	<u>1,948,754</u>
Minimum Future Rental Payments Required	<u>\$3,977,018</u>	<u>\$4,125,696</u>	<u>\$8,102,714</u>

NOTE 5 LONG-TERM DEBT

In June 2004, Delaware Military Academy Charter School obtained a loan in the amount of \$1,750,000 for the purposes of funding the fit-out of the new building. Interest on the new loan is paid monthly at a rate of 5.0 percent. The loan matures on May 31, 2009 when a lump sum principal payment is due to settle the loan. As of June 30, 2005, \$1,739,180 of this loan has been drawn down.

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 60,515	\$ 86,499	\$ 147,014
2007	84,292	82,560	166,852
2008	88,604	78,248	166,852
2009	<u>1,505,771</u>	<u>67,750</u>	<u>1,573,521</u>
	<u>\$1,739,182</u>	<u>\$ 315,057</u>	<u>\$2,054,239</u>

In June 2004, Delaware Military Academy Charter School obtained a loan in the amount of \$1,250,000 for the purposes of helping to fund the fit-out of the new building and for repaying the balance of the April 2003 construction loan in the amount of \$850,000. Interest on the new loan is paid monthly at a rate of 4.5 percent. The loan is an interest-only loan until maturity date. The loan matures on May 31, 2009.

As of June 30, 2005, the School did not meet the financial covenants in its loan agreement with Wilmington Savings Fund Society, FSB. However, the School has received a letter of waiver for these covenant violations as of the fiscal year ended June 30, 2005.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 56,250	\$ 56,250
2007	-	56,250	56,250
2008	-	56,250	56,250
2009	<u>1,250,000</u>	<u>51,623</u>	<u>1,301,623</u>
	<u>\$1,250,000</u>	<u>\$ 220,373</u>	<u>\$1,470,373</u>

A schedule of changes in debt is as follows:

	<u>Beginning 7/01/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 6/30/2005</u>	<u>Amounts Due within One Year</u>
Governmental activities:					
Construction loan	<u>\$2,216,190</u>	<u>\$ 772,992</u>	<u>\$ -</u>	<u>\$2,989,182</u>	<u>\$ 60,515</u>

NOTE 6 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan, which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's pension expense for the year ended June 30, 2005 was \$229,291.

NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

NOTE 9 REQUIRED PRIMARY GOVERNMENT DISCLOSURES

The primary government requires a classification of receipts which differs from generally accepted accounting principles at the component unit/charter school level. The following are condensed government-wide financial statements as of and for the years ended June 30, 2005 and 2004:

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 9 REQUIRED PRIMARY GOVERNMENT DISCLOSURES (cont'd)

STATEMENT OF NET ASSETS
(Amounts expressed in thousands)

	<u>2005</u>	<u>2004*</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 226	\$ 692
Accounts receivable, net	35	-
Prepaid rent	51	-
Due from other governments	7	18
Total Current Assets	<u>319</u>	<u>710</u>
Noncurrent assets:		
Capital assets, net of depreciation	<u>3,032</u>	<u>2,417</u>
TOTAL ASSETS	<u>\$ 3,351</u>	<u>\$ 3,127</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ -	\$ 399
Accrued liabilities	302	208
Due to State of Delaware - pension costs	42	25
Uniform deposit escrow	106	79
Notes payable	60	-
Total Current Liabilities	<u>510</u>	<u>711</u>
Noncurrent liabilities:		
Compensated absences	24	17
Notes payable	<u>2,929</u>	<u>2,216</u>
Total Noncurrent Liabilities	<u>2,953</u>	<u>2,233</u>
TOTAL LIABILITIES	<u>3,463</u>	<u>2,944</u>
NET ASSETS:		
Invested in capital assets, net of related debt	43	201
Unrestricted	<u>(155)</u>	<u>(18)</u>
TOTAL NET ASSETS	<u>(112)</u>	<u>183</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,351</u>	<u>\$ 3,127</u>

* Restated for comparative purposes.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 9 REQUIRED PRIMARY GOVERNMENT DISCLOSURES (cont'd)

STATEMENT OF ACTIVITIES
(Amounts expressed in thousands)

	<u>2005</u>	<u>2004*</u>
Total Expenses	\$ (4,168)	\$ (2,615)
Program Revenues:		
Operating grants and contributions	<u>612</u>	<u>592</u>
Net Expenses	<u>(3,556)</u>	<u>(2,023)</u>
General Revenues:		
Charges to school districts	1,016	683
Payments from primary governments	2,236	1,559
Investment earnings	<u>10</u>	<u>5</u>
Total General Revenues	<u>3,262</u>	<u>2,247</u>
CHANGE IN NET ASSETS (LIABILITIES)	(294)	224
NET ASSETS, BEGINNING OF YEAR	<u>182</u>	<u>(42)</u>
NET ASSETS, END OF YEAR	<u>\$ (112)</u>	<u>\$ 182</u>

* Restated for comparative purposes.

NOTE 10 RELATED PARTY TRANSACTIONS

Delaware Military Academy Charter School rents the School's facilities from Trison Building Concepts. The owner of Trison Building Concepts is the brother-in-law of the Chief Financial Officer of Delaware Military Academy Charter School.

NOTE 11 NET ASSET/FUND BALANCE DEFICIT

The School's governmental activities net assets decreased by \$294,550 during the current fiscal year which resulted in a cumulative net asset deficit balance of \$112,161 at June 30, 2005. In addition, the School's governmental funds net assets decreased by \$129,394 during the current fiscal year which resulted in a cumulative fund balance deficit of \$130,495 at June 30, 2005. The deficit occurred due to an increase in expenses in its second full year of operations and also as a result of its first full year of occupancy in the new building.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES:				
Charges to school districts	\$1,009,800	\$1,009,800	\$1,015,583	\$ 5,783
State aid	2,198,157	2,198,157	2,236,086	37,929
Federal aid	130,000	130,000	139,205	9,205
Earning on cash and investments	-	-	10,202	10,202
Contributions	147,139	147,139	472,740	325,601
TOTAL REVENUES	<u>3,485,096</u>	<u>3,485,096</u>	<u>3,873,816</u>	<u>388,720</u>
EXPENDITURES				
Current:				
Salaries	1,616,115	1,616,115	1,718,601	(102,486)
Employment costs	394,312	394,312	569,126	(174,814)
Travel	-	-	7,406	(7,406)
Contractual services	59,000	59,000	242,654	(183,654)
Public utility services	79,300	79,300	65,965	13,335
Insurance	48,000	48,000	29,547	18,453
Transportation - buses	240,000	240,000	259,309	(19,309)
Land/building/facilities	673,389	673,389	659,598	13,791
Repairs and maintenance	45,000	45,000	45,976	(976)
Supplies and materials	107,000	107,000	114,523	(7,523)
Computer/word processing software	45,000	45,000	936	44,064
Capital Outlays:				
Equipment	30,000	30,000	98,965	(68,965)
Property	-	-	772,992	(772,992)
Debt Service:				
Interest	150,000	150,000	190,604	(40,604)
TOTAL EXPENDITURES	<u>3,487,116</u>	<u>3,487,116</u>	<u>4,776,202</u>	<u>(1,289,086)</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(2,020)</u>	<u>(2,020)</u>	<u>(902,386)</u>	<u>(900,366)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from financing	-	-	772,992	772,992
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>772,992</u>	<u>772,992</u>
NET CHANGE IN FUND BALANCE	(2,020)	(2,020)	(129,394)	(127,374)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	-	-	(1,101)	(1,101)
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (2,020)</u>	<u>\$ (2,020)</u>	<u>\$ (130,495)</u>	<u>\$ (128,475)</u>

NOTE: The School's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTARY SECTION

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2005

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 31,980	\$ 194,296	\$ -	\$ 226,276
Accounts receivable	-	35,280	-	35,280
Prepaid rent	-	51,282	-	51,282
Due from other governments	<u>-</u>	<u>6,957</u>	<u>-</u>	<u>6,957</u>
TOTAL ASSETS	<u><u>\$ 31,980</u></u>	<u><u>\$ 287,815</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 319,795</u></u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accrued salaries	\$ -	\$ 302,473	\$ -	\$ 302,473
Due to State of Delaware - pension costs	-	41,631	-	41,631
Uniform deposits	<u>-</u>	<u>106,186</u>	<u>-</u>	<u>106,186</u>
Total Liabilities	<u>-</u>	<u>450,290</u>	<u>-</u>	<u>450,290</u>
FUND BALANCES:				
Reserved for encumbrances	6,075	-	-	6,075
Unreserved:				
General fund	<u>25,905</u>	<u>(162,475)</u>	<u>-</u>	<u>(136,570)</u>
Total Fund Balances	<u>31,980</u>	<u>(162,475)</u>	<u>-</u>	<u>(130,495)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 31,980</u></u>	<u><u>\$ 287,815</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 319,795</u></u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
REVENUES				
Charges to school districts	\$ -	\$1,015,583	\$ -	\$1,015,583
State aid	2,236,086	-	-	2,236,086
Federal aid	-	-	139,205	139,205
Earning on cash and investments	-	10,202	-	10,202
Contributions	-	472,740	-	472,740
TOTAL REVENUES	<u>2,236,086</u>	<u>1,498,525</u>	<u>139,205</u>	<u>3,873,816</u>
EXPENDITURES				
Current:				
Instructional services	1,938,064	473,730	139,205	2,550,999
Operation and maintenance of facilities	224,655	678,678	-	903,333
Transportation	56,162	203,147	-	259,309
Capital Outlays:				
Equipment	658	98,307	-	98,965
Property	-	772,992	-	772,992
Debt service:				
Interest	-	190,604	-	190,604
TOTAL EXPENDITURES	<u>2,219,539</u>	<u>2,417,458</u>	<u>139,205</u>	<u>4,776,202</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,547</u>	<u>(918,933)</u>	<u>-</u>	<u>(902,386)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from financing	-	772,992	-	772,992
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>772,992</u>	<u>-</u>	<u>772,992</u>
NET CHANGE IN FUND BALANCES	16,547	(145,941)	-	(129,394)
FUND BALANCES, BEGINNING OF YEAR	<u>15,433</u>	<u>(16,534)</u>	<u>-</u>	<u>(1,101)</u>
FUND BALANCES, END OF YEAR	<u>\$ 31,980</u>	<u>\$ (162,475)</u>	<u>\$ -</u>	<u>\$ (130,495)</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

EXPENDITURES

Current:

Salaries	\$ 1,718,596
Employment costs	558,666
Travel	7,406
Contractual services	91,223
Communications	10,285
Public utility services	65,965
Insurance	29,547
Transportation	259,309
Land/building/facilities	658,095
Repairs and maintenance	17,329
Other contractual services	173,837
Supplies and materials	26,742
Operating supplies	86,181
Tuition reimbursements	10,460

Capital Outlays:

Equipment	98,965
Property	772,992

Debt Service:

Interest	<u>190,604</u>
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TOTAL EXPENDITURES

\$4,776,202

Dover, Delaware
800.355.8210
Media, Pennsylvania
610.565.5222

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

202 Bancroft Building
3411 Silverside Road
Wilmington, Delaware 19810
302.478.8940
FAX: 302.478.0133
www.btcpa.com
info@btcpa.com

August 5, 2005

Board of Directors
Delaware Military Academy Charter School
Wilmington, Delaware

We have audited the financial statements of the governmental activities and each major fund of Delaware Military Academy Charter School, Wilmington, Delaware as of and for the year ended June 30, 2005 and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delaware Military Academy Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Delaware Military Academy Charter School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items #03-5, #03-6 and #05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware Military Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a

Board of Directors
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direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

SUPPORTING DOCUMENTATION - CASH RECEIPTS

03-5 Finding

During our review of cash receipts, we noted that not all receipts listed on the deposit tickets could be traced to a receipt. We further noted that a staff member was not performing a reconciliation of daily receipts to the general ledger.

Recommendation

We recommended that the Charter School implement procedures so that proper documentation is maintained for all receipts received in cash. One way to ensure proper receipts are given is the use of a carbon copy receipting book. We further recommended that the cash receipts be reconciled on a monthly basis.

Status

During our current year audit, we noted that all receipts listed could not be traced to a supporting receipt. This finding is still applicable for the current year.

Corrective Action Plan

Delaware Military Academy will implement procedures so that proper documentation is maintained for all receipts received in cash by utilizing a carbon copy receipting book.

DETAILED PROPERTY RECORDS

03-6 Finding

During our prior year audits, we noted that the Charter School does not maintain accurate data for all owned capital assets. The preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items, provides information for proper filing of income and property tax returns, and provides controls to safeguard the assets.

Recommendation

We recommended a written procedure statement that would require the following:

- A detailed property record for each asset.
- A property identification number to be assigned and affixed to each asset.
- A capitalization policy under which minor disbursements within a specified dollar amount would be immediately charged to operations.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

At a minimum, the detailed property records should include the following information:

- Description, asset number and location.
- Acquisition cost and date of acquisition.
- Assigned life and method of depreciation.
- Depreciation taken on an annual basis with accumulation thereof.

We further recommended that a physical count of property should be periodically taken and compared to the items carried on the detailed subsidiary records of property and equipment. Such physical counts will help to detect the loss or unauthorized use of valuable property.

Status

During our current year audit, we noted that, although the School has compiled a listing of assets held as of year end, this listing is not complete because there was some confusion as to the items that could be capitalized. We further noted that this confusion occurred because Delaware Military Academy has not adopted a formal capitalization policy applicable to the size of the School according to the recommendation from the prior year. This finding is still applicable for the current year.

Corrective Action Plan

Delaware Military Academy will write and institute a capitalization policy that will include a property identification number to be assigned and affixed to each asset, a detailed property record for each asset, and assigned life and method of depreciation.

NOTES PAYABLE REGISTER

03-7 Finding

During our prior year audits, we noted that the School does not maintain a notes payable register.

Recommendation

We recommended that a notes payable register be established and maintained on a current basis. The register would include pertinent data about each open note payable, such as date, amount, payee, maturity dates, interest rate, collateral and payment history with respect to principal and interest. In addition, copies of paid and unpaid notes could be included in the register. As a control factor, unpaid principal amounts per the register should be reconciled on a periodic basis to the general ledger.

Status

During our current year audit, we noted that the School is maintaining a notes payable register. This finding is no longer applicable.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

FINANCIAL COVENANTS

05-1 Finding

During our current year audit, we noted that the School did not meet the financial covenants in its loan agreement with Wilmington Savings Fund Society, FSB. During the term of the loan, the School is required to maintain at all times the following covenants:

- Minimum fund balance of \$250,000 as of June 30, 2004 and an increase by 50 percent of net surplus as of June 30, 2005.
- Minimum cash flow coverage ratio of 1.10:1, effective June 30, 2005.

The School did not meet either covenant as of June 30, 2005.

Recommendation

We recommend that the School develop a strategy to meet the above-listed covenants.

Corrective Action Plan

The School has requested and has received relief from the WSFS bank covenants as described above for the Delaware Military Academy (DMA) charter school year ended June 30, 2005.

This issue has been discussed with a representative of WSFS, who understands the combinations of facts that preclude the School's ability to meet the covenants for this reporting period. The bank has issued a waiver letter to relieve DMA of this requirement for this year.